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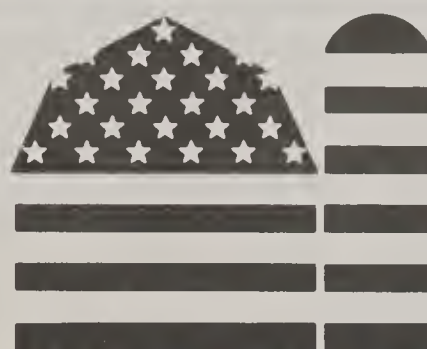
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# FARMERS' NEWSLETTER

## Livestock



December 80/L-19

### Hog Prices Pick Up

Hog producers, who've just emerged from a period of severe financial losses, can look forward to higher prices into 1981.

This spring, record pork production and large supplies of competing meats caused prices to drop below \$30 per cwt., the lowest since June 1974. For some producers, these returns were nearly \$20 per head below cash production costs.

But hog prices picked up sharply this summer as pork production declined almost 13 percent from spring levels. Barrow and gilt prices reached a high of \$50 and averaged \$46 per cwt. during the summer quarter, \$8 higher than a year ago.

Producers reacted to the low hog prices that began in the second half of 1979 by selling more sows and adding fewer gilts to their breeding inventories. By June 1, 1980, the number of hogs kept for breeding in the 14 major producing States was 8 percent below a year earlier. Further decreases this summer resulted in a 10-percent smaller breeding inventory on September 1 than a year earlier.

Producers surveyed around September 1 said that 10 percent fewer sows farrowed during June-August than a year ago and that 10 percent fewer would farrow during September-November.

The June-November pig crop will be marketed mainly in the first half

of 1981. Therefore, look for hog slaughter to be off about a tenth from the first half of 1980.

This drop in pork output is not likely to be offset by larger supplies of competing meats. As a result, hog prices may approach the high \$40's or low \$50's during first-half 1981.

The price outlook for the second half of 1981 is less certain because producers still have time to adjust farrowing plans for the first half of 1981 in response to expected hog and feed prices and other developments.

Pigs born during December-May will supply the bulk of second-half 1981 slaughter. On September 1, producers said they'd reduce December-February farrowings by 7 percent from a year earlier. If these intentions are met and March-May farrowings are also down 5 to 10 percent, hog prices in the second half of 1981 could average in the upper \$50's.

On the other hand, if hog output equals this year's level, prices would likely average in the low \$50's, but a 10-percent drop in production could boost average hog prices to the low \$60's per cwt. As you can see, the level of hog output will have a major impact on

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hog prices, particularly since there won't be large supplies of competing meats.

### Time To Expand?

With higher hog prices in prospect for 1981, should producers consider enlarging their breeding herd or planning a major expansion at this time?

Here are some points to consider: First, increased pork output would result in lower hog prices. Second, production costs, especially feed costs, are expected to be up sharply next year. These higher costs may cancel out much of the gain from improved hog prices.

Feed costs climbed this summer and fall as the summer's heat and drought lowered yields of many major crops. Based on November 1 conditions, this year's corn crop is forecast at 6.46 billion bushels, down 17 percent from the 1979 record. Soybean production is forecast at 1.77 billion bushels, 22 percent below last year's record.

Farm corn prices averaged \$2.89 per bushel in the summer quarter, up from \$2.42 the previous quarter and \$2.56 a year earlier. Soybean meal prices at

Decatur averaged \$210 a ton, versus \$161 in the spring and \$193 a year ago.

You can expect feed prices to continue higher during the current crop year that began on October 1. Corn prices may average \$3.30 to \$3.75 a bushel and meal prices \$215 to \$285 per ton. This, of course, means heftier production costs for hog producers in 1981.

With the corn and meal prices currently expected, feed costs for farrow-to-finish enterprises may average near \$37 per cwt. sold in 1981, up from this year's \$30.

Producers also will want to take a hard look at how much they'll pay for non-feed items when making production decisions. The table below shows how nonfeed costs rose faster than feed costs in the past 5 years. For example, fuel and energy prices more than doubled and building and fencing prices rose 43 percent. Meantime, corn prices advanced only 1 percent, although 38-40 percent protein supplement increased 49 percent.

Nonfeed costs will probably rise closely with the rate of inflation. For average farrow-to-finish operators, these costs totaled an estimated \$14

### NONFEED COSTS CLIMBED FASTER THAN FEED COSTS OVER PAST 5 YEARS

	1975	1976	1977	1978	1979	1980 <sup>1</sup>
	Percent change from previous year					
Feed costs						
Corn	-7.5	-7.8	-18.5	3.4	12.4	16.1
Hog concentrate	-8.2	16.4	14.8	-5.5	11.3	6.0
Nonfeed costs						
Labor	7.9	9.4	7.6	7.1	9.5	7.9
Buildings and fences	13.8	4.4	6.5	8.3	9.7	8.1
Autos and trucks	18.6	11.0	10.4	6.0	10.1	5.9
Tractors and self-propelled machinery	21.1	11.3	9.7	8.8	11.6	11.8
Other machinery	23.9	14.2	9.3	8.1	10.2	11.3
Farm and motor supplies	14.3	-2.4	0.6	3.6	10.5	16.4
Fuel and energy	11.3	5.6	8.0	5.0	30.2	38.4
Chemicals	34.5	8.8	-9.8	-6.4	2.0	17.3

<sup>1</sup> Projected.



per cwt. sold in 1980, but may reach \$15 by 1981.

So, combined feed and nonfeed costs may reach \$52 per cwt. sold in 1981; up from \$43 this year. Costs, of course, vary widely from producer to producer. You will want to develop careful estimates for your own situation before deciding to expand in 1981.

Overall, producers may find that gross returns during first-half 1981 barely cover cash expenses and leave little as a return for operator labor or depreciation. For the second half of next year, net returns are likely to exceed cash costs, if producers cut back production as they've indicated.

### Explore Ways To Lower Costs

If your hog operation accounts for a relatively small part of the gross income from your farm, you may want to consider reducing your breeding inventory. Selling your corn directly rather than feeding it to hogs may yield you higher net returns.

Furthermore, you may want to keep market weights down. It takes more feed to put an additional 20 pounds on a 220-pound hog than on a 200-pound hog. By holding down market weights, producers not only save on feed costs, but reduce pork production, thereby keeping market prices higher.

Also cull sows that weren't the best producers.

Look for ways to reduce heat losses from your buildings to keep energy costs down.

### What About New Construction?

Whether you're thinking about getting into hog production for the first time or you're an established producer who's planning a major construction project, you may want to consider this situa-

tion: Over the past 5 years, rising building and equipment costs have meant higher production costs for operators with new facilities than for operators with comparable facilities that were built 5 or 10 years ago.

The table below shows average acquisition costs for hog production facilities and the estimated cost to replace them in 1978. The age of major facilities and feedlots ranges from 3 to 20 years, with the newest facilities in the largest enterprises.

Whether the facilities were built 10 or 20 years ago had only a modest effect on the original investment. But because of the rapid increase in building costs in the last 5 years, the cost of replacing these facilities has increased sharply.

In 1978, the replacement cost of buildings and equipment on a 1,600-head farrow-to-finish enterprise was estimated at \$62.77 per cwt., compared with the average acquisition cost of \$30.74. This year, prices of buildings and fences were 18.5 percent higher than in 1978, boosting these investment costs even further.

### REPLACEMENT COSTS FAR ABOVE ACQUISITION COSTS FOR FARROW-TO-FINISH OPERATORS

Size of enterprise (no. of head sold annually)	Average Acquisition Cost <sup>1</sup>		1978 Replace- ment Cost	
	Buildings and equipment	Machinery	Buildings and equipment	Machinery
Dollars per cwt.				
All sizes	26.32	7.43	52.69	12.18
40	31.72	15.93	68.86	26.11
140	32.37	19.82	72.57	32.49
300	21.78	10.91	47.18	17.88
650	20.32	4.62	42.46	7.57
1,600	30.74	2.34	62.77	3.83
5,000	31.13	.76	43.10	1.25

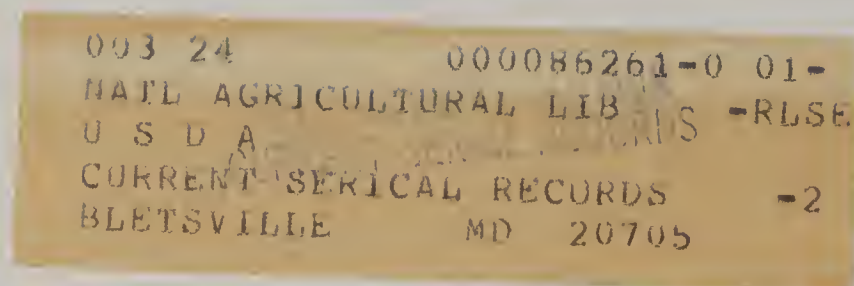
<sup>1</sup> For all types of existing facilities averaging 3 to 20 years old.

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Other machinery prices rose 22.6 percent. These cost hikes represent a substantial increase in the investment that a new or expanding producer will have to make to build new facilities.

Because of the rapid increase in prices producers must spend on these and other nonfeed inputs, these costs account for a greater share of total costs for a new producer than for one who built his hog production facilities 10 years ago.

For example, in 1978, nonfeed costs accounted for an estimated 49 percent of total production costs for a 1,600-head farrow-to-finish operation built in that year. This contrasts sharply with older facilities where nonfeed costs account for about 40 percent of total production outlays.

The producer who built a hog facility in 1980 to sell 1,600 head a year may find his total production costs near \$60 a cwt. Next year, with feed and other input costs expected to rise, the cost of producing hogs in this facility may be over \$60 per cwt. Thus, for producers with new facilities, costs may exceed returns even in the second half of 1981.

Producers planning to begin building new facilities should consider the following: Supplies of pork and competing meats in the second half of 1981 may vary greatly from current projections as producers react to changing costs and returns. As a result, hog prices could be considerably higher or lower than current projections.

Feed costs will also vary depending on crop and weather conditions here and abroad next year. If U.S. yields are poor again in 1981, feed costs would probably remain high through much of 1982.

Too, costs of new facilities could rise faster or slower than they have in recent years, depending on inflation in the general economy. Whether or not these costs climb rapidly, individual producers will need to make their own estimate of expected outlays, since building and equipment costs vary sharply with the type of system used.

Given these uncertainties, some producers may decide to wait 'til they've a firmer idea about coming costs and returns before making a large investment in hog production facilities.